PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2009

Portsmouth Water Limited, a supplier of water to Hampshire and West Sussex, announced its results for the year to 31 March 2009.

Highlights

During the past year, Portsmouth Water has again been recognised for sector leading performance:

- The Company is again rated as the most efficient water supply company by the industry regulator.
- The Company has continued to perform well in the customer service indicators used by the regulator to assess customer service.
- A high level of compliance with drinking water standards and water supplies maintained without any restrictions.
- On target with the AMP4 capital expenditure programme.
- Achievement of a major award in the RoSPA Occupational Health and Safety Awards for the water industry sector.

	2009	2008
Turnover	**£35.4m**	£33.9m
Operating profit	**£7.0m**	£7.6m
Profit before taxation	**£5.8m**	£8.4m
Net debt	**£82.9m**	£79.0m
Capital expenditure	**£11.8m**	£12.0m

Portsmouth water
150 years of quality service

Chairman's Statement

It is pleasing to report that in the last year Portsmouth Water has continued to achieve industry leading levels of customer service and efficiency and at the lowest charges in the country. I am also especially pleased to report that the Company's commitment to the Health and Safety of employees has been recognised at the RoSPA Occupational Health and Safety Awards 2009 with a 'highly commends' award in the Water Industry Sector. The sector award is highly regarded in the industry and this is an outstanding achievement and is testimony to the hard work and dedication of all our employees over several years.

Portsmouth Water was again ranked as the most efficient water supply company in the latest league tables published by Ofwat, the economic regulator and continued to perform well in the customer service indicators used by Ofwat. Furthermore in a report published by the Consumer Council for Water, the Company was shown to have the lowest level of complaints in the industry.

Compliance with drinking water standards remains at a high level at 99.96% and water supplies to customers were maintained throughout the year without any restrictions.

Once again there was significant capital investment during the year including two new membrane water treatment plants being put into service. Three membrane water treatment plants have been commissioned in the last two years at a total cost of £11.4m.

Although 2008/09 has been a successful year for Portsmouth Water, it has been challenging. There have been significant cost pressures. Upon renewal of its electricity contract in November 2008, the unit price increased by over 40% and some chemical prices trebled. Customer debt remains a considerable problem for the industry and the recession does appear to be having an impact on bill payers. The provision for doubtful debt has been increased by 14% this year.

Considerable management resource has been committed to the Periodic Review, the process by which Ofwat sets the Company's price limits for 5 years. During the year Draft and Final Business Plans were produced together with a 25 Year Water Resources Management Plan. Costly consultancy services have been necessary to provide the evidence required by Ofwat to support these plans. There is no doubt that the requirements for this review (known as PR09) are more onerous and complicated than the previous review (PR04) and have resulted in significantly higher costs. The economic regulator will make its final decision on future price limits in November 2009.

The financial results for the year show a reduction in operating profit of £0.6m to £7.0m. An increase in turnover due to tariff increases was offset by the operating cost changes referred to above. In addition depreciation on infrastructure renewals was increased by £0.8m to reflect a revised view of the level of infrastructure renewals expenditure required in the future.

In the light of these results the Directors are recommending a final dividend of £2.6m, which will be paid in May 2009.

As noted above, the Company produced its Final Business Plan in April 2009, which set out its investment plans through to 2015. Ofwat will use this plan as a basis for setting price limits for this period. We have asked for annual price increases of 2.1% above inflation with the major drivers being increases to particular elements of operating costs which are largely outside of the Company's control. It is appreciated that the proposed increases in bills will be unwelcome news for customers and we have done all we can to manage the impact of increased costs. Our charges will remain the lowest in the country by a considerable margin and the average household bill will still be below £100 per annum. Our plan includes the following proposals:

- Customers will continue to receive secure water supplies such that hosepipe bans are no more frequent than 1 in 20 years.
- To reduce our licensed abstractions to preserve the important wildlife habitats of the River Itchen and Chichester and Langstone Harbours.
- To reduce the risk of taste and odour issues at one treatment works by the year 2014.
- To renew 23 km of mains infrastructure each year to ensure service is maintained.
- To reduce leakage by 10% by 2015.

Although climate change is likely to have a significant impact on the Company's future water resource availability, the existing evidence for these impacts is not considered to be sufficiently robust. The current Business Plan therefore does not include any investment needs to meet the impact of climate change. New evidence from the UK Climate Impacts Programme is expected to be published shortly and it is anticipated this will have considerable impact on the Company's available water supplies. If this is the case we will need to seek agreement from Ofwat to finance water saving measures and new resource development activities.

One of the most significant challenges facing Portsmouth Water is the likely development of competition. The Cave Review published its final report in April 2009, and we are currently assessing its conclusions. We believe that the present vertical integration of the water supply business offers many advantages particularly in the management of water resources and water quality and that it is important that these are not lost in the development of competition. Competition should only be introduced where it can be shown to create significant and real benefits for customers.

After over 30 years with the Company (12 as a Director), John Cogley will retire in August 2009. On behalf of the Board I would like to thank John for his major contribution to the success of Portsmouth Water.

The success that Portsmouth Water has achieved has been dependent on the excellence of our employees who continue to show dedication and commitment. I am confident that their performance will enable us to rise to the challenges of the future.

T. M. Lazenby M.B.E.
Chairman

Financial Performance

Profit before tax

Turnover for the year increased by 4.4% to £35.4m. This reflected the 6.7% overall tariff increase implemented in July 2008, which was partially offset by a reduction in consumption by non-household customers of 2.1% and £0.3m in income from new property connections, and other non-tariff work.

Despite the increase in turnover, operating profit fell by £0.6m as analysed below:

	2008/09 £m	2007/08 £m
Operating profit before depreciation and FRS17 Pension Charge	16.4	16.6
Depreciation (including renewals)	7.7	6.7
FRS17 Pension Charge	1.7	2.3
Total Operating Profit	**7.0**	7.6

Operating costs, excluding depreciation and the FRS17 pension charge rose by £1.6m (9.0%). There were a number of significant elements to this increase. A new electricity contract took effect from November 2008 and increased costs by £0.25m. The provision for bad debt was increased by £0.2m reflecting a sharp rise in the level of unpaid bills. Activities associated with the 2009 price review accounted for £0.2m and abstraction charges and chemicals showed significant increases above inflation. The current service cost for the pension scheme reduced by £0.6m to £1.7m following a review by the Actuaries under FRS 17. Depreciation on infrastructure assets rose by £0.8m as a result of a re-assessment of the charge based on the projected expenditure included in the Company's Business Plan submitted to Ofwat in April 2009.

Interest receivable at £4.5m (2008 - £4.3m) relates mainly to interest received from group companies and is based on Libor plus 1%.

A reduction in other finance income of £1.2m represents a fall in the expected return on Pension Fund assets following a review by the actuaries under FRS 17.

Interest payable at £7.3m (2008 - £6.2m) includes a £4.0m indexation of the loan provided by Artesian Finance plc (2008 - £2.9m). Interest on the capital sum amounted to £3.0m (2008 - £2.8m). The indexation of the loan for 2009 was based on July 2008 RPI, which was 5.0%.

As a result primarily of the increased depreciation charge and lower potential income from the pension fund investments, profit before tax reduced to £5.8m (2008 - £8.4m).

Taxation

The taxation charge at £1.7m was £1.5m higher than last year when there was a large adjustment in respect of deferred tax arising from the effect of the removal of industrial buildings allowances and changes to corporation tax and capital allowance rates.

Dividends

The dividends paid during the year amounted to £4.664m (2008 - £4.209m). Dividends are paid up to the parent company and largely used to service debt held by the group.

Cashflow and Balance Sheet

Net cashflow from operations at £16.7m (2008 - £16.0m) increased marginally as a result of movement in working capital. Net cash outlay on fixed assets at £10.6m (2008 - £12.1m) reflected further progress on the mains renewal programme and work on a number of capital maintenance projects. Most of the large quality projects for AMP4 have been completed.

Net debt at £82.9m (2008 - £79.0m) increased during the year as a result of the indexation of the £66.5m Index Linked Loan of £4.0m. At the year end, net debt to regulatory capital value (RCV) was 77.4% (2008 - 72.3%). Although both the Index Linked Loan and the RCV are indexed with RPI, the year end loan position is indexed at the previous year's July RPI which was 5% and the year end RCV was indexed at the March RPI which was -0.4%.

Interest Rate, Liquidity, Capital and Credit Risk

The major financial risks faced by the Company are interest rate, liquidity, capital and credit risks. The Company assesses these risks on an ongoing basis and its policies for managing them remain unchanged from previous periods.

The Company's exposure to interest rate fluctuations is now limited by the fixed interest rate applicable to the index-linked loan drawn in 2002, with inflation risks on the cost of the loan being effectively hedged against regulated revenues which are also linked to the RPI (subject to the above comments on the timing of RPI). Interest is charged at a fixed rate of 3.635% on the indexed amount of the loan. The indexed value of the loan at 31 March 2009 was £82.6m (2008 - £78.6m).

The Company seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs through an appropriate borrowing structure and to invest cash assets safely and profitably on the short term market. In 2008/09 all of the short term cash was deposited with the Company's bankers, RBS. Short term liquidity is achieved through a £15m working capital facility and an overdraft arrangement. At the end of the year, £4.0m of this facility had been drawn (2008 - £4.0m), while the overdraft arrangement remained unutilised.

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so it can provide returns for shareholders and benefit to customers.

The capital structure is set at a level which provides an appropriate risk profile to ensure the Company can obtain finance at competitive levels. As is common in the water industry the Company monitors capital in the ratio of debt to Regulatory Capital Value (RCV). RCV is a measure of the Company's asset value used in the setting of prices in the water industry. The level of RCV is published by the regulator (Ofwat) on an annual basis. The ratio achieved for 2008/09 is shown below, and the details of the calculation are shown on page 46.

The Company's exposure to credit risk results from the continuing impact of bad debt on its ability to collect water revenues. It seeks to minimise this risk by utilising all available means, including the use of a dedicated debt recovery section, agencies for collecting outstanding debt and the following of best practice guidelines.

Accounting Policies
The accounts have been prepared in accordance with the accounting policies described in note 1 to the accounts on pages 33 to 34 and with UK GAAP.

Under its licence of appointment, Portsmouth Water Limited, a private company, is required to publish information about its annual results as if it were a company covered by the Listing Rules of the Financial Services Authority. From April 2005, listed groups are required to prepare accounts in accordance with International Financial Reporting Standards (IFRS). It is the Company's view that these standards are not appropriate for a regulated water business and it has been granted exemption, by Ofwat, such that it need only adopt IFRS when non-listed companies are required by statute to do so.

Pensions
The Company accounts for the Brockhampton Pension Scheme in which it is the principal employer, in accordance with FRS17. The latest actuarial valuation carried out for the purposes of FRS17 showed a surplus after deferred tax of £12.2m (2008 - £21.6m).

Profit and Loss Account
For the year ended 31 March 2009

	Notes	2009 £000	2008 £000
Turnover	2	**35,404**	33,906
Cost of sales		**(18,961)**	(17,078)
Gross profit		**16,443**	16,828
Net operating expenses	3	**(9,454)**	(9,243)
Operating profit		**6,989**	7,585
(Loss) on sale of fixed assets		**(37)**	(183)
Profit on ordinary activities before interest		**6,952**	7,402
Interest receivable	5	**4,537**	4,331
Other finance income	28	**1,676**	2,851
		13,165	14,584
Interest payable and similar charges	6	**(7,351)**	(6,215)
Profit on ordinary activities before taxation	7	**5,814**	8,369
Taxation on profit on ordinary activities	8	**(1,683)**	(147)
Profit for the financial year	20	**4,131**	8,222

The profit and loss account has been prepared on the basis that all operations are continuing operations.

Statement of Total Recognised Gains and Losses
For the year ended 31 March 2009

	Notes	2009 £000	2008 £000
Profit for the financial year		**4,131**	8,222
Actuarial (loss)/gain on pension scheme	28	**(13,020)**	7,602
Deferred tax relating to actuarial loss/(gain) on pension scheme	17	**3,646**	(2,129)
Effect of change to corporation tax rate on pension asset		**-**	(292)
Total recognised gains and losses relating to the year		**(5,243)**	13,403

The accompanying notes form an integral part of these accounts.

Balance Sheet
As at 31 March 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Fixed assets					
Tangible assets	10	**90,459**		87,308	
Investments	11	**60,633**	**151,092**	60,478	147,786
Current assets					
Stocks		**415**		468	
Debtors	12	**4,032**		4,049	
Investments	13	**4**		4	
Cash at bank and in hand	14	**2,604**		2,494	
		7,055		7,015	
Creditors: amounts falling due within one year	15	**(17,054)**		(18,016)	
Net current liabilities			**(9,999)**		(11,001)
Total assets less current liabilities			**141,093**		136,785
Creditors: amounts falling due after more than one year	16		**(81,263)**		(77,239)
Provisions for liabilities	17		**(9,131)**		(8,344)
Net assets excluding pension asset			**50,699**		51,202
Pension asset	28		**12,180**		21,584
Net assets including pension asset			**62,879**		72,786
Capital and reserves					
Called up share capital	19		**1,078**		1,078
Share premium account	20		**1,539**		1,539
Capital redemption reserve	20		**3,250**		3,250
Profit and loss account	20		**57,012**		66,919
Shareholders' funds	21		**62,879**		72,786

The accompanying notes form an integral part of these accounts.
The accounts were authorised for issue and approved by the Board on 28 May 2009, and signed on its behalf by;

Cash Flow Statement
For the year ended 31 March 2009

	Notes	2009 £000	2009 £000	2008 £000	2008 £000
Net cash inflow from operating activities	22		**16,719**		15,996
Returns on investments and servicing of finance					
Interest received		**4,417**		3,780	
Interest paid		**(3,327)**	**1,090**	(3,257)	523
Taxation					
UK corporation tax paid		**(724)**		(687)	
Payments for group relief		**(1,284)**	**(2,008)**	(1,223)	(1,910)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(11,521)**		(12,914)	
Sale of tangible fixed assets		**19**		32	
Capital contributions received		**890**	**(10,612)**	753	(12,129)
Equity dividends paid			**(5,079)**		(4,946)
Cash inflow/(outflow) before management of liquid resources and financing			**110**		(2,466)
Management of liquid resources					
(Purchase) of short term deposits			**-**		(60)
Financing					
New loans			**-**		2,500
Increase/(decrease) in cash in the year	23		**110**		(26)

The accompanying notes form an integral part of these accounts.

Notes

1. The financial information included in this announcement as regards the Company has been prepared in accordance with United Kingdom accounting standards and does not constitute statutory accounts for the relevant periods within the meaning of Section 240 of the Act.

   Statutory accounts for the Company for the financial year ended 31 March 2008, upon which the auditors of the Company have given an unqualified report, have been delivered to the Registrar of Companies. Statutory accounts for the Company for the financial year ended 31 March 2009 will be delivered to the Registrar of Companies as soon as practicable after approval at the next Annual General Meeting.

For further information, please contact:

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